

AMERICAN GRAPHOPHONE CO. vs. ) on Bill  
EDISON PHONO. WORKS ) etc.  
AMERICAN GRAPHOPHONE CO. vs. ) on Bill  
U.S. PHONO. CO., & al. ) etc.  
-Replying brief for defendants on  
license by estoppel -H. W. Hayes



United States Circuit Court.

DISTRICT OF NEW JERSEY.

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BETWEEN  
AMERICAN GRAPHOPHONE COMPANY,  
*Complainant,*  
AND  
EDISON PHONOGRAPH WORKS,  
*Defendant.*

*On Bill, &c.*

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BETWEEN  
AMERICAN GRAPHOPHONE COMPANY,  
*Complainant,*  
AND  
UNITED STATES PHONOGRAPH COM-  
PANY, & AL.,  
*Defendants.*

*On Bill, &c.*

Replying Brief for Defendants on License  
by Estoppel.

HOWARD W. HAYES,  
Of Counsel.

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HOLBROOK PRINTING CO., NEWARK, N. J.

## **REPLYING BRIEF FOR DEFENDANTS ON THE QUESTION OF LICENSE.**

The defendants' counsel have been delayed in handing in this additional brief, as they assumed, from what was said at the argument, that the complainant would answer somewhat fully the propositions presented by the defendants in regard to a license by estoppel. Although in his supplemental brief, the complainant's counsel has not seriously attempted to answer those propositions, still it seems proper to present to the Court, by way of reminder, some of the propositions that were discussed on the argument; and also to answer one or two suggestions contained in the complainant's supplemental brief.

### **Can the Defendants rely both on the License by Estoppel and on the Invalidity of Complainant's Patents?**

At the hearing the complainant's counsel insisted with some show of earnestness that the defendants by setting up the defence of license estopped themselves from attacking the validity of the patents. That proposition is not supported by the cases, nor will it bear the test of analysis.

An analysis of the decisions shows that there are only three classes of cases in which it can be claimed that the defences of a license and the invalidity of the patents can not be set up at the same time. They are:

1. Where the defences are inconsistent.
2. Where a suit is brought for royalty under a license.
3. Where the defendant has recognized the validity of the patents.

1. Viewing the matter from the standpoint of inconsistent defences, the objection has no sort of validity. At law or equity any number of defences can be pleaded,



provided that in the same plea or answer the facts necessarily alleged to sustain one defence do not disprove the other.

If the defences were set up in different pleas, as at law, no defences in bar of the action can be objected to as inconsistent. But a single statement of defence must be consistent with itself, as it must be read as a whole. So in an answer in a bill in equity, if the facts alleged or implied in one defence are fatal to another defence set up, the answer is bad.

Daniels Chy. Practice, page 713 :

"A defendant may, by his answer set up any number of defences, as the consequence of the same state of facts, which his case will allow or the ingenuity of his legal advisers may suggest."

"Although a defendant may be permitted to set up by his answer, several defences, as the consequence of the same state of facts, or of facts which are consistent with each other, a defendant cannot insist upon two defences which are inconsistent with each other, or are the consequence of inconsistent facts."

And on page 714:

"Although a defendant cannot by his answer, set up, in opposition to the plaintiff's title, two inconsistent defences in the alternative, he will not be precluded from denying the plaintiff's general title, and also in insisting that, in case the plaintiff establishes his title, he is precluded from recovering by some other circumstances which would equally serve to preclude him, or any other person in whom the title might be actually vested."

Hopper *vs.* Hopper, 11 Paige, 46, 47:

"A defendant in this court, in an answer, is at liberty to set up as many defences as he pleases. The different parts of his answer, therefore, are not to be construed in the same manner as the different parts of a plea would be in this court, or even in a court of law. \* \* \* Where the defendant is required to swear to the truth of his answer, or at least to his belief of its truth, he cannot set up two distinct defences therein which are so inconsistent with each other that if the matters constituting one defence are truly stated, the matters upon which their defence is attempted to be based must necessarily be untrue in point of fact."



National Manufacturing Co. *vs.* Myers, 7 F. R., 355:

In this case suit was brought by the owner of the patent against the defendant for infringement. The defendant in his answer denied the validity of the patents, and also set up a license. The complainant filed a replication and afterwards moved for leave to withdraw the replication for the purpose of filing exceptions to the answer. The exceptions that were intended to be taken were that the answer contained inconsistent defenses, and that the defense that the defendant was making and vending the patented article under the license of the patentee was not consistent with the defense that the patents were invalid. The opinion held that those defenses were not inconsistent.

It says on page 357:

"Defenses are inconsistent where they cannot both be true; but where there are different defenses and they may all be true, though entirely different in their nature, they are not inconsistent. Applying these rules to the present case, can it be said that the defenses in this answer are inconsistent? May it not be true that these patents were invalid, and yet that the respondent honestly supposing them to be valid, took from the patentees or assignees a license to make and sell the invention supposed to be secured by them? And, when the party is sued for an infringement of the patent, may he not first defend by showing the invalidity of the patents? And, if he fails in this, may he not show that the patentee had granted him a license? We think he may."

The opinion distinguishes this sort of a case from an action upon the license itself, in which case the defendant cannot deny the validity of the patents, and it says:

"But that is not this case. Here the complainants bring their bill, not upon an agreement of license, but they expressly aver that no license existed, and it is purely a bill for damages and to enjoin further infringement."

The opinion further disapproves of *Brooks vs. Stolly*, 3 McLean, 523. In *Brooks vs. Stolly* the complainant had given the defendant a license to operate a machine under its patent on a payment of a certain royalty, and the defendant agreed under seal to pay the royalty. The defendant did not pay the royalty, but continued to operate the machine. The complainant brought suit to enjoin the



defendant from using the machine without paying the royalty. The complainant admitted the validity of the license. The defendant, among other defenses, sets up the invalidity of the patents.

The opinion says on page 526:

"It may not be improper, however, to suggest, whether the defendant, having acknowledged the validity of the complainants' right under his hand and seal, is not estopped now from denying it. If in this admission he was misled, and on that ground contends that he is not bound by it, he must repudiate the contract, and claim nothing under it. He cannot claim that part of the contract which may be favorable to his interests, and reject that which operates against him."

Another case in point is:

*Pelham vs. Edelmeyer*, 15 F. R., 262:

In this case the complainant filed a bill against the defendant for infringement. The defendant set up a license from the complainant. At final hearing it appeared from the proof that the complainant had no title to the patents. The court held that setting up a license did not estop the defendant from disputing the complainant's title to the patents.

Page 264:

"If the complainants were suing upon the agreement for a license, the defendant might not be permitted to deny complainant's title to the patent. But the bill assumes to treat defendants as ordinary infringers. They are therefore at liberty to avail themselves of any defense open to defendants who are charged with infringement."

There is no inconsistency in the facts set up by the answers. It is not only possible but actually true, as the evidence shows, that the defendants manufactured phonographs under a license given under invalid patents.

2. The decisions in cases where suits have been brought for royalty under a license do not apply to this case.

It is well settled that a licensee who has acted under the license cannot, in a suit for royalty, deny that at the time



the license was given the licensor had a good title to valid patents. But he can at any time stand out from under the license, and surrender, so to speak, the possession under the license to the licensor, and then infringe the patent and defeat a suit for royalty by disputing the patents. Or, if the patent is declared invalid and the invention thrown open to the public, and the licensee evicted, so to speak, from his exclusive possession, he can interpose the same defence. The analogy to a landlord and tenant is exact and is often alluded to in the opinions. A tenant cannot dispute the title under which he entered so long as he remain in possession under it. He may, however, surrender possession to the landlord and then attack his title. Or he may set up eviction under a prior title as a defence to an action of rent.

This question is discussed in *White vs. Lee*, 14 F. R., 790 and the above proposition maintained. New York and Massachusetts cases, *Marston vs. Swett*, 82 N. Y., 586 and *Bartlett vs. Holbrook*, 1 Gray, 114, are cited, as supporting that proposition. In the New York case an able discussion of the question will be found. These cases are not pertinent to this case, and they emphasize the fact that the doctrine under discussion applies only to suits brought upon the license contract.

Where the licensor disavows the license and sues for infringement, the licensee may, in general, dispute the validity of the patents.

*Baltimore Car Wheel Co. vs. North Baltimore Railway Company*, 21 F. R., 47.

The opinion says on page 50:

"These pleadings show that the complainant, as the foundation of his case, treats the license as forfeited, and as no longer having any force or efficacy. It is true that in a case in which the licensor affirms the contract, and is pursuing his remedies under it, the licensee is estopped from denying the validity of the patent; but it cannot be declared void by one party, and yet estop the other."

The infringer sued in that case was a purchaser from a



licensee, so the case is not entirely in point with the present one; but the reasoning of it is applicable.

3. The third class of estoppel is where the defendant has, for a consideration or under seal, covenanted with the patentee to admit the validity of the patents. Such a contract is binding on the covenantor in favor of the patentee and his assigns. The contract need not be in the nature of a license. Any form of agreement containing such a covenant would have the same effect. It was on this theory that *Brooks vs. Stolly*, *supra*, was decided.

It is the *covenant* of the licensee, *not the fact of his being licensee* that raises the estoppel. The assignee of a license is not so estopped.

In regard to a purchaser from the licensee, the opinion in *Baltimore Car Wheel Company vs. North Baltimore Railway Company*, 21 F. R., says on page 50:

"But without regard to the pleadings, I do not see how the proposition can be maintained that the respondent, who is not a party to the written agreement can be estopped by its admissions."

A mere licensee who has entered into no covenants as to the validity of the patents is not under such an estoppel. *Brown vs. Latham*, 27 F. R., 77, decided that if the infringer has formerly accepted a license, it is a *prima facie* admission of the validity of the patent that will permit a preliminary injunction without an adjudication, *if the infringer does not dispute the patents*.

The opinion says on page 77:

"In this case, taking and operating under the license would appear to be sufficient evidence of acquiescence to warrant this injunction if the patent was unchallenged. As it is, the plaintiff must stand upon the validity of his patent, and maintain it against this attack."

In the case against the Works no estoppel can arise under this head. The Works has had no contractual relations with the complainant; and in none of the contracts made by it or by Mr. Edison with the North American Phonograph Company or Lippincott is there any admission of the validity of any patent.



In the license from the North American Phonograph Company to the New Jersey Phonograph Company there is an admission of the validity of the patents. But even if the Graphophone Company could take advantage of that admission, the United States Phonograph Company is a mere purchaser from a licensee and under *Baltimore Car Wheel Co. vs. North Baltimore Railway Co.*, is not estopped.

All the cases that can be found on this subject, outside of suits for royalties, deal with express licenses and not with implied licenses or a license by estoppel such as arises in this case. The express recognition of the validity of the patents which is held to prevent a defendant from afterwards disputing them, here is entirely wanting. In this case the complainant denies that a valid license ever was given to the Works. In all the reported cases where an estoppel is held to have arisen, both sides admitted that an express license had been given, and was at one time in force.

The complainant's position is illogical and inequitable. It is not sustained by principle nor by precedent. It is easy to see the equity and logic of forbidding inconsistent defences in the same pleading; of forbidding the tenant or the licensee to deny the title under which he has obtained possession unless he shall first surrender that possession; and of holding parties to their written covenants and solemn admissions; but where is the logic or the equity in preventing the defendant by an imaginary technical rule of pleading from first asserting a license denied by the complainant and, if the Court finds that the facts proven do not show such a license, from then standing on its rights as one of the public and denying the legality of the complainant's pretended monopoly?

Not one of the cases cited by the complainant's counsel sustains this proposition in the faintest way.

They are as follows:



*Consolidated Middlings Co. vs. Guilder*, 9 F. R., 155 :

The defendant owned patents which he sold to the complainant. Part of the consideration of the sale was an agreement by the defendant that he would stop manufacturing. Complainant also allowed the defendant to sell certain machines under the patents, on the payment of a royalty. The defendant then took out another patent and commenced to manufacture and sell machines under it. These machines were infringement on some of the patents he had sold to the complainant. The complainant sought to enjoin the defendant, and the defendant set up the invalidity of the patents which he had assigned to the complainant. It was held that the defendant could not dispute the validity of the patents.

It is at once apparent that this was a case of the assignor of a patent attempting to dispute its validity and that it has no bearing upon the present case.

*Baltimore Car Wheel Co. vs. North Baltimore Passenger Railway Company*, 21 F. R., 47. Syllabus:

"In a case in which the complainant suing for infringement of his patent does not proceed to enforce remedies under a license granted by him, but treats the license as no longer in force, a purchaser from the supposed licensee is not estopped from denying the validity of the patent."

In this case the defendant purchased the patented article from the Bemis Car Box Company who had taken a license from the complainants (the owner of the patents) and had agreed to pay royalty. The complainant sued to enjoin the defendants from infringing their patents. The defendant set up the invalidity of the patents, and also that the Bemis Car Box Company was licensed under the patent. The complainant urged at the hearing that the defendant was estopped to deny the validity of the patent on account of the license that it had pleaded. The court says, page 50 :

"With regard to this position assumed by the complainant, two things are to be observed. First, that it is not suggested anywhere in the bill of complaint; and second, that the present respondent is not pretended to have been a party to the written agreement. The bill of complaint



9 F. R., 155 :  
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makes no allegation whatever with regard to any license, and discloses nothing whatever with regard to it. It is, in form, the usual bill of complaint against an infringer, praying for an injunction and an account of profits, and alleges that the respondent, 'without license of your orators and against their will, and in violation of their rights, have used, etc., the said improvement.' The answer, after setting up the defences of want of novelty, and invalidity of the Stewart reissued patent, avers, upon information and belief that the Bemis Car Box Company was by the writing of January 25th, 1881, licensed by the complainant, to make the axle boxes purchased by the respondent. To this answer the complainant filed a general replication. These pleadings show that the complainant, as the foundation of his case, treats the license as forfeited, and as no longer having any force or efficacy. It is true that in a case in which the licensor affirms the contract, is pursuing his remedies under it, the licensee is estopped from denying the validity of the patent; but it cannot be declared void by one party, and yet estop the other."

This case is in point for the defendants.

*Milligan vs. Lalance Grosjean Manufacturing Company,*  
 21 F. R., 570 :

The plaintiff invented an improvement in metal vessels, and assigned the invention to the defendant. The defendant agreed to pay a royalty. The patent was issued to the defendant, and defendant sold the vessels. In a suit against him for the royalty, he claimed that the patent was void.

The opinion says on page 572 :

"The real question now is whether the fact of the invalidity is a good answer to this action upon the contract. The relation of the parties in respect to the patent became similar to that of licensor and licensee. The defendant held the legal title to the patent, but held it to use and pay for the use. The price was not expressly agreed upon, but the law will imply a reasonable price, and the question is the same as if there had been an agreed price. Had the plaintiff retained the title to the patent, and the defendant taken a license for an agreed royalty, and then practiced the invention exactly as has been done, the fact of the invalidity of the patent would have been no defense to a suit for the royalty. The defendant has had and enjoyed what was



contracted for, and it is no answer to say that the same might have been had without the contract."

This case being a suit brought upon the license has no bearing in the present case.

*Brown vs. Latham*, 27 F. R., 77:

In this case the defendant had been a licensee, but had repudiated the license. A preliminary injunction was asked for and the defendant filed an affidavit attacking the validity of the patents.

The opinion says on page 77:

"The plaintiff relies upon the estoppel of the defendant to deny the validity of the patent growing out of the license and the operating under it by them. There is no fair question but that a licensee under a patent is estopped to deny its validity on any question arising out of that relation between the parties, *Kinsman vs. Parkhurst*, 18 How, 289. It does not follow that he will be always estopped because he has stood in that relation. When he stands out from under the license, and claims nothing from it, and does nothing more under it, with full knowledge to the licensor of his position, he would appear to be at as full liberty to contest the patent as anyone. In this case, taking and operating under the license would appear to be sufficient evidence of acquiescence to warrant this injunction without any previous adjudication, if the patent was unchallenged. As it is, the plaintiff must stand upon the validity of his patent, and maintain it against this attack."

This case also is not in point.

This claim of inconsistent defences is put in that part of the complainant's brief that deals with the license defense with the apparent idea that it would prevent that defense being interposed; yet if it means anything, it means that the license defense having been interposed the other defense must be abandoned.

This alleged rule is advanced by the complainant as if it were a rule of pleading and that pleading one defense barred the other. There is no authority in the cases for that. Only inconsistent defenses have that effect, and these two



defenses are entirely consistent. What the cases hold is, that in certain cases the *existence* of a license, not the fact that the defendant *pleaded* it, estopped the defendant from disputing the validity of the patents. It is a question of proof, not of pleading. To take advantage of it the complainant must *allege* the license, and not *deny* it.

Baltimore Car Wheel Co., *vs.* North Baltimore Railway Co., 21 F. R., 47.

In the present case the complainant denies the license, yet seeks to take advantage of it.

If this is a question of inconsistent pleading the complainant is too late with its objection. It should have excepted to the answer.

National Manufacturing Co. *vs.* Meyers, 7 F. R., 355 :

In that case a motion was made by the complainants for leave to withdraw their replication and except to the defendant's answer.

The opinion says on page 356 :

"The motion does not disclose the exceptions which complainants desire to take to the answer, but they were stated on the argument to be that the answer contains inconsistent defenses; that the defense that the respondent is making and vending the patented article under a license from the patentee is not consistent with the defense that the patents are invalid. If this were so the answer would be objectionable, and in our discretion we might *permit the replication to be withdrawn* and in some proper form have the question presented for our determination."

Having filed a replication and testimony having been taken to sustain the issues raised by the defendant without any objection of this character being interposed, it is too late now to raise a question of pleading.

**The Defendants' principal Defense in regard to the Patents is that they have not infringed them, and so the entire proposition as to Inconsistent Defenses is aside from the Case.**

The principal defense alleged by the defendants under the patent side of these cases is that, on account of the state



of the prior art, the patents of the complainant should not be considered primary patents and should have so restricted a construction as not to make the instruments manufactured and sold by the defendants infringements upon them. It hardly needs argument or cases to sustain the proposition that the defense of non-infringement is not inconsistent with setting up a license. The proposition is self-evident. No matter how completely a defendant may have bound himself to admit the validity of a patent or the complainant's title to it, he always is free to say and to prove, in answer to an action for infringement, that he has not infringed. A case cited earlier in the brief, *White vs. Lee*, 14 F. R., 790, is in point and goes much further than is necessary to support the defendants in this regard. It decides that a licensee who is sued for a royalty under a license may show as a defense that the articles he has manufactured, for which a royalty is claimed, do not infringe the plaintiffs' patents. The case is a leading one and is quite generally cited in text books to support that proposition. And if a licensee may set up such a defense in a suit for royalties, *a fortiori* the right of one sued as an infringer to set it up cannot be disputed.

#### Judge Acheson's Decision.

The complainant's counsel reiterates the statement made at the hearing, that Judge Acheson's decision disposes of the question of license by estoppel. I do not understand that Judge Acheson passed upon that question at all. Your Honor stated at the hearing that Judge Acheson had informed you that all he meant to decide was that the license granted by the complainant to Lippincott was personal to him and was not transferable. To that we entirely agree. That license was contained in the contracts of March 26th and August 6th, 1888, and was, and was intended to be, personal in character. That is in no way inconsistent with the defence of license by estoppel. We must remember that Judge Acheson was dealing with a plea of an express



license contained in the contracts. To sustain it, it had to appear on the face of the contracts either that Lippincott had a license from the complainant which was transferable, and that he transferred it to the Works; or that, acting as the duly authorized agent for the complainant, he gave such a license to the Works. Judge Acheson negatives both of those propositions. His opinion says that Lippincott's license was personal and not transferable, and that he was not such an agent of the complainant as would authorize him to grant a license in its name. But that is no answer to the insistence the defendants now make, viz.: That the complainant permitted Lippincott to make false representations to Mr. Edison in regard to his (Lippincott's) power to grant a valid license, the truth of which representations the complainant now is estopped to deny.

The opinion contains one obiter statement which the complainant's counsel seeks to make much of by distorting its meaning. The statement is to the effect that the contract of August 1st does not "purport to invest the defendant with a perpetual license to manufacture and sell under the complainant's patents." If we remember that Judge Acheson was dealing merely with the literal language of the contracts, the truth of this is unquestioned, as no mention of the complainant's patents is made in the contract, and the grantors in the contract are not the owners of the patents. But Judge Acheson does not in any way pass upon the proposition advanced by the defendants, viz.: that Mr. Edison, Lippincott and the complainant all understood that the contract licensed the phonograph under the graphophone patents. We are not now construing the mere contracts; we are showing what representations the complainant made, and allowed to be made, to Mr. Edison. The question is not as to what the contract "purports"; it is as to what Mr. Edison thought he was getting and what Lippincott with complainant's approval represented to him he was getting under it. There can be no question but that it was the intention of all parties that the phonograph should have a license under the graphophone patents, and



that the complainant's officers so understood the contracts. This question is fully discussed on pages 23 to 26 of the defendant's Main License Brief to which I would refer your Honor.

The complainant insists that Lippincott could not transfer his rights "whether by voluntary or involuntary assignment," and that if he could, he could not strip them in transit of the terms and conditions upon which they were granted. No one can gainsay the truth of that. The defendant does not dispute it. But the defendant does not claim under the license granted by the complainant to Lippincott. It claims under a free and perpetual license granted to it by Lippincott and the North American Photograph Company; the validity of which license the complainant, by the representations which it made and permitted to be made, now is estopped to deny.

The overruling of the defendant's plea by Judge Acheson without prejudice to the right to answer cannot be passed over as lightly as complainant's counsel would like. If a plea is overruled, the defence set up in it cannot be raised by answer unless by leave of the court. That is a well known rule of equity practice.

"It was argued that if the plea shall be overruled, the defendant will be at liberty under rules 34 and 39 in equity to again make the same defence by answer. I do not so construe those rules. The question at issue now, will then have been adjudicated. Upon overruling the plea, the defendant, it is true, would be ruled to answer the bill, but it does not follow that the matters litigated under the plea could be renewed in a defence made by answer."

*Hubbell vs. De Land*, 11 Biss., 382, 383:

The established practice in courts of equity is that if it is probable that the defence attempted to be made by a plea may successfully be made by answer, the plea is either ordered to stand as an answer, or is overruled "without prejudice" to answering over. In this case the defence of license set up in the plea could not be sustained in the manner in which it was pleaded. And it



is our understanding of the case that the evidence showed so clearly that under proper pleadings the complainant would be estopped to deny the validity of the license set up in the plea (although it had never itself granted it and so the plea had to be overruled) that Judge Acheson reserved to the defendant the right to set up the same license in its answer and to show that, although the license was not granted by the complainant, yet the complainant could not dispute its validity.

**The Consideration the Complainant Received for the License to the Defendant, the Edison Phonograph Works.**

The complainant's counsel asserts that the defendant's claim of license is without equity, as there was no consideration received by the complainant for such license. That is not true. On the contrary there are three items of consideration, each one of which made the reciprocal arrangement with Mr. Edison most advantageous to the complainant.

First: The complainant secured a license to make the graphophone under Mr. Edison's fundamental patent. That was of vital importance; without it not a single graphophone could be made or sold. Without the reciprocal arrangement the patents of Bell and Tainter had no more value than so much waste of paper. That the complainant's officers considered this license of the utmost value to them appears from the citations from the record found in the defendants' Main License Brief on pages 19 and 20. The complainant's counsel complains that the defendant tenders no payment for the rights it claims. But what payment or tender of payment did the complainant ever make for the thousand of graphophones that it made in infringement of Mr. Edison's fundamental patent?

Second: The complainant secured freedom from the competition of the phonograph so far as cutting prices or pushing the sales of the rival instrument was concerned. Both instruments were to be put out at the same price, and no



favoritism was to be shown in presenting them to the public. This was, in the opinion of the graphophone people, a most important feature of the reciprocal arrangement. While the graphophone at that time was not a practical machine, they believed it soon would be made so. If it had produced equally good results with the phonograph it would have been much more popular with the public. It weighed but one-tenth of what a phonograph did. It needed no heavy electric motor or troublesome battery. The cylinders were apparently less destructible and were more easily put on and taken off the instrument. The adjustments of the receiving and reproducing points were more easily made. Altogether it apparently was a much more salable instrument. The graphophone people believed that if the two instruments were put out at the same price and under the same circumstances, the public would choose the graphophone, and that by this arrangement they would drive the phonograph from the field and obtain a monopoly for their instrument. Although on account of the worthlessness of the graphophone the expected result did not follow, it was none the less a full and ample consideration for the license given to the phonograph under the graphophone patents.

Third: The complainant further protected its instrument from the competition of the phonograph by securing an agreement that none of the features of the graphophone, patented or unpatented, other than those, if any, already used, should be used on the phonograph. Its officers believed that by securing similarity in price and in the presentation of the instruments they had effectually killed the phonograph. Now if, in addition, they could prevent the phonograph from appropriating those features of the graphophone which they believed would make the public choose it in preference to the phonograph, they would clinch the nails which they believed already had been driven into the phonograph's coffin. Their error of judgment as to the respective merits of the instruments does not make the gaining of this supposed advantage any the less a



representing them to the public. graphophone people, a most procal arrangement. While was not a practical machine, made so. If it had produced phonograph it would have the public. It weighed but sh<sup>d</sup> did. It needed no heavy battery. The cylinders were and were more easily put on at. The adjustments of the ints were more easily made. a much more salable instru- ple believed that if the two he same price and under the ic would choose the grapho- gement they would drive the d obtain a monopoly for their ecount of the worthlessness of l result did not follow, it was e consideration for the license er the graphophone patents.

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valid consideration for the rights which they were willing to give in order to obtain it.

No matter if on account of the worthlessness of the graphophone, these three considerations proved less valuable than the complainant expected, nevertheless it got them; and it cannot now be heard to say, as its counsel says in his supplemental brief, "It [the defendant] paid nothing and has tendered no payment for the valuable rights to which it pretends."

#### Complainant's Statements of Facts.

The statements of facts made by the complainant's counsel in the 3d and 4th pages of his supplemental brief is inexact and misleading. It is supported by no reference to the record and should have no weight in the decision of the case. The actual facts proven in the case are accurately stated in the defendant's Main Brief on License, and abundantly supported by references to the record. It is only necessary for the court to examine those references to be satisfied of the correctness and accuracy of the statements.

There seems to be an entire misapprehension on the part of the complainant's counsel as to the propositions presented by the defendant on the question of license. On page 4 of his supplemental brief he says that if the defendant's view of the case is correct, then if Lippincott had made contracts with a dozen other manufacturers to make phonographs for him, each manufacturer would have obtained a personal license under the complainant's patents. That is manifestly absurd. The defendant's counsel have never even hinted at such a proposition. But what we do claim, and it cannot successfully be disputed, is that if Lippincott had attempted to give a dozen manufacturers free licenses under the graphophone patents, and the complainant had connived at and encouraged the giving of such licenses and had



affirmed them and reaped benefits from them (as it did in regard to the license given the defendant) the complainant could not now deny that every one of the dozen manufacturers did obtain such a license.

#### **The United States Phonograph Company Case.**

The complainant's counsel seems to have abandoned any attempt to dispute the license to the New Jersey Phonograph Company under which the United States Phonograph Company claims. The facts which estop the complainant from denying that the New Jersey Phonograph Company acquired a valid license to vend and, under certain circumstances, to make phonographs under the graphophone patents, is set out fully in the Main Brief on License, pages 35 to 50, and needs no repetition here. The effect of the sub-company license agreements was not raised by the pleadings before Judge Acheson and was not discussed by counsel nor considered by the court. So far as that case is concerned it is *res integra*. But in the case against the New England Phonograph Company, a licensee sub-company with a license similar to that given to the New Jersey Phonograph Company, the effect of such a license was raised by the pleadings, discussed by counsel and considered by the court. And the decision was that the complainant was estopped to deny that the sub-company obtained a valid license under the graphophone patents. That case is absolutely on all fours with the one against the United States Phonograph Company. Under the comity that exists between the Federal Courts of co-ordinate jurisdiction, we presume this court will follow that decision unless it concludes that it is manifestly wrong.

#### **New England Phonograph Company Case.**

A consideration of the decision in that case leads to conclusions that hardly have been presented fully enough to this Court, and which should not be overlooked. They



seem to prevent the complainant from obtaining the relief sought for against the defendant, Edison Phonograph Works, no matter what view this Court takes of the questions before it.

By the decree in the New England Company case it was adjudged, that the New England Phonograph Company obtained by its contract with the North American Phonograph Company, a valid license to sell phonographs under the graphophone patents. That license involves a right to procure instruments and supplies from the Works, either through the North American Phonograph Company or directly. That right, being settled in a suit in which the Graphophone Company is a party, is conclusive against it and any injunction against the Works would have to except the manufacturing of instruments and supplies for the New England Phonograph Company. It may be claimed that, the license of the New England Phonograph Company being territorial, the instruments for it should be manufactured in New England; the answer to that is found in the license of the New England Phonograph Company which provides that the instruments should be delivered "At the places where phonographs \* \* \* are manufactured" which is Orange, New Jersey. The certificate of incorporation of the Works, shows it to be a New Jersey corporation, located in Orange.

The case of the United States Phonograph Company is precisely similar to that of the New England Phonograph Company. If a decision is rendered in favor of the United States Phonograph Company, it will establish the license of the New Jersey Phonograph Company, and any injunction that might go against the Works would also have to except instruments and supplies made for the New Jersey Phonograph Company.

But in addition to the territorial license of the New England Phonograph Company and the New Jersey Phonograph Company, similar territorial licenses have been given to other sub-companies covering most of the United States; each of which therefore is a licensee of the complainant and



is entitled to employ the Works to manufacture phonographs and supplies for it. All this sufficiently appears from the evidence, and any injunction against the Works therefore would further have to except phonographs and supplies made for any of these licensee sub-companies; which would be the end of the complainant's case. As all the phonographs and supplies made by the Works have been made for the North American Phonograph Company to be furnished to these sub-companies.

It therefore appears that if this Court conceives Judge Carpenter's decision to be correct, the complainant's bills in both cases must be dismissed.

**Is Knowledge obtained by a Director before he becomes  
a Director to be imputed to the Corporation.**

At the hearing it was suggested to your Honor that knowledge obtained by Mr. Easton before he became a director of complainant, but so recently as necessarily to be in his memory, should be imputed to the company, and your Honor expressed some doubt as to the correctness of that view and asked counsel to submit authorities.

An investigation of the authorities shows a diversity of opinion on this point but a decision by Mr. Justice Bradley, in the United States Supreme Court seems to settle it in favor of the proposition advanced.

The Distilled Spirits, 11 Wallace, 356, 366:

"In England the doctrine now seems to be established, that if the agent, at the time of effecting a purchase, has knowledge of any prior lien, trust, or fraud, affecting the property, no matter when he acquired such knowledge, his principal is affected thereby. If he acquire the knowledge when he effects the purchase, no question can arise as to his having it at that time; if he acquired it previous to the purchase, the presumption that he still retains it, and has it present to his mind, will depend on the lapse of time and other circumstances. Knowledge communicated to the principal himself he is bound to recollect, but he is not bound by knowledge communicated it to his agent, unless it is present to the agent's mind at the time of effecting the



purchase. Clear and satisfactory proof that it was so present seems to be the only restriction required by the English rule as now understood. With the qualification that the agent is at liberty to communicate his knowledge to his principal, it appears to us to be a sound view of the subject.

On account of Easton's interest and activity in the phonograph business there can be no question as to his continued knowledge of the terms of the sub-company license agreements.

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